

H.B. NO. 1408

A BILL FOR AN ACT

RELATING TO INFLATION ADJUSTMENTS TO CHAPTER 235, HAWAII REVISED STATUTES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The purpose of this Act, to be known as the
2 "Taxpayer Protection Act of 2007," is to require the director of
3 taxation to adjust the standard deduction, income tax brackets,
4 and personal exemption for inflation. Inflation erodes the
5 value of these amounts and distorts the fiscal equity among
6 taxpayers in Hawaii. In a state with one of the highest costs
7 of living in the nation, it is vital that the legislature
8 recognize this disparity caused by stagnant changes in Hawaii's
9 tax law that results in a windfall to the government at the
10 expense of taxpayers earning additional income only to maintain
11 the value of the dollar.

12 Inflation-induced increases in individual income tax
13 revenues result in annual collections that exceed the amounts
14 anticipated by legislative actions establishing rates,
15 exemptions, deductions, and other features of the Hawaii
16 individual income tax. Furthermore, the income tax laws of
17 Hawaii, in combination with economic inflation, have caused
18 inequitable treatment of the taxpayers because the application of

1 inflexible, statutorily prescribed rates of tax, standard
2 deduction, and personal exemption to increasing personal incomes
3 has resulted in increasing the taxpayer's tax liability while the
4 taxpayer's purchasing power has remained the same or, in some
5 instances decreased.

6 The Report of the 2005-2007 tax review commission
7 recommended that "[f]or Hawaii's Individual Income Tax, the
8 standard deduction, the personal exemption and the tax brackets
9 should be indexed for inflation." Past tax review commissions
10 have recommended increasing the standard deduction and the
11 personal exemption, and widening the tax brackets, to adjust for
12 inflation. These adjustments do not contemporaneously address
13 inflation. Indexing legislation such as this, however, timely and
14 contemporaneously addresses this issue. The 2005-2007 tax review
15 commission noted that without indexing, average income tax rates
16 will rise as a result of inflation and will tend to rise more
17 than inflation.

18 SECTION 2. Chapter 235, Hawaii Revised Statutes, is amended
19 by adding a new section to be appropriately designated and to
20 read as follows:

21 "§235- Annual adjustments for inflation. (a) For
22 taxable years beginning after December 31, 2006, the director of
23 taxation shall, by official pronouncement, multiply the cost-of-
24 living adjustment for the calendar year by the dollar amounts
25 contained in the following sections of this chapter:

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- 1 (1) The standard deduction amounts provided in section
- 2 235-2.4(a);
- 3 (2) The minimum and maximum taxable income rate bracket
- 4 dollar amounts provided in sections 235-51(a), (b), and
- 5 (c); provided that the rate applicable to each income
- 6 bracket may not be changed; and
- 7 (3) Every personal exemption multiplier amount provided in
- 8 section 235-54, except for subsection (b).

9 If any of the dollar amounts, as adjusted, are not multiples of
10 \$50, any increase must be rounded to the nearest \$50. If the
11 cost-of-living adjustment for any taxable year is 1.000 or less,
12 no adjustment may be made for that taxable year.

13 (b) As used in this section:

14 "Consumer price index" means the average over a twelve-month
15 period of the National Consumer Price Index, not seasonably
16 adjusted, published monthly by the Bureau of Labor Statistics,
17 United States Department of Labor, designated as the "National
18 Consumer Price Index for All Urban Consumers-United States City
19 Average."

20 "Cost-of-living adjustment" means the consumer price index
21 for the twelve-month period ending June 30 of the preceding
22 calendar year divided by the consumer price index for the twelve-
23 month period ending June 30, 2005."

24 SECTION 3. New statutory material is underscored.

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1 SECTION 4. This Act shall take effect upon its approval
2 and shall apply to taxable years beginning after December 31,
3 2006.

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5 INTRODUCED BY: Calvin K. H. Day
6 BY REQUEST

JAN 22 2007

JUSTIFICATION SHEET

DEPARTMENT: Taxation

TITLE: A BILL FOR AN ACT RELATING TO INFLATION ADJUSTMENTS TO CHAPTER 235, HAWAII REVISED STATUTES.

PURPOSE: To allow for annual adjustments to the Hawaii standard deduction, income tax brackets, and personal exemption in response to increases in inflation as documented by the US Department of Labor Consumer Price Index.

MEANS: Add a new section to chapter 235, Hawaii Revised Statutes.

JUSTIFICATION: By requiring the Director of Taxation, by official pronouncement, to automatically annually adjust the standard deduction, income tax brackets, and the personal exemption in response to the US Department of Labor's Consumer Price Index, Hawaii taxpayers will no longer be victims of "bracket creep." Bracket creeps occurs as people naturally earn more in response to inflation and are pushed into higher tax brackets while the spending power of their income remains the same. By adjusting critical amounts in the income tax law, taxpayers will be relieved of the increase in tax on income that is received to maintain the value of a dollar. Without such adjustments, the government receives a windfall of tax revenue as its taxpayers earn more just to maintain their current spending power. This bill would adopt a recommendation of the 2005-2007 Tax Review Commission.

Impact on the public: Limits the bracket creep and commensurate increase in tax that

taxpayers experience as they receive pay adjustments that reflect the cost of living or inflation increases.

Impact on the department and other agencies:
Provides the department with authority to administratively adjust income tax amounts.

GENERAL FUND: \$10 million per year.

OTHER FUNDS: None.

PPBS PROGRAM
DESIGNATION: TAX 100.

OTHER AFFECTED
AGENCIES: None.

EFFECTIVE DATE: Upon approval, and shall apply to taxable years beginning after December 31, 2006.